

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION OF BARNESBURG WATER  
ASSOCIATION, INC.

)  
)  
) CASE NO. 90-221  
)  
)  
)

\_\_\_\_\_  
ALLEGED VIOLATIONS OF KRS CHAPTER 278

O R D E R

Barnesburg Water Association, Inc. ("Barnesburg") is a non-profit, non-stock water association organized under KRS Chapter 271. Barnesburg is engaged in the distribution of water to the public for compensation and is a utility subject to the regulatory jurisdiction of this Commission pursuant to KRS 278.040 and KRS 278.012.

An independent audit was conducted on Barnesburg by auditors from the Commission's Rates and Tariffs Division. The results of that audit are contained in the auditors report of March 21, 1990, a copy of which is attached hereto and incorporated herein as an appendix to this Order. At page 3 of their report, the auditors disclose that Barnesburg charged rates which were not authorized nor approved by this Commission for 1- and 2-inch meter sizes. Barnesburg currently has only one rate schedule in its tariff for all meter sizes. In addition, again at page three, the auditors noted that "[d]uring 1988, the billing card indicated that failure to provide on time readings for three months in a row would result

in a service charge. . . . The Association's billing clerk said the charge is rare and could not remember if any such charge was collected in 1988." The auditors found no record in the calendar year 1988 records to show this charge was collected. However, collection of a service charge is not provided for in Barnesburg's tariff.

KRS 278.160 provides:

(1) [e]ach utility shall file with the commission, within such time and in such form as the commission designates, schedules showing all rates and conditions for service established by it and collected or enforced. . . .

(2) No utility shall charge, demand, collect or receive from any person a greater or less compensation for any service rendered or to be rendered than that prescribed in its filed schedules, and no person shall receive any service from any utility for a compensation greater or less than that prescribed in such schedules.

Barnesburg has failed to adhere to the provisions of KRS 278.160 in charging rates which do not appear in its tariff and which have not been approved by this Commission. Accordingly, the Commission finds that a prima facie showing has been made that Barnesburg has violated KRS 278.160 by charging unauthorized rates. Barnesburg should immediately cease charging any and all rates not specifically approved by this Commission.

IT IS THEREFORE ORDERED that:

1. Barnesburg shall appear at a hearing scheduled September 21, 1990 at 9:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane in Frankfort, Kentucky, and be prepared to show cause why Barnesburg should not

be penalized pursuant to KRS 278.990 for its failure to comply with KRS 278.160.

2. Barnesburg shall immediately cease charging unauthorized rates and service charges.

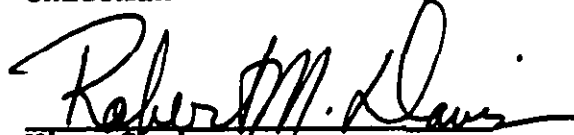
3. Barnesburg shall submit a written response to all allegations contained herein within 20 days of the date of this Order.

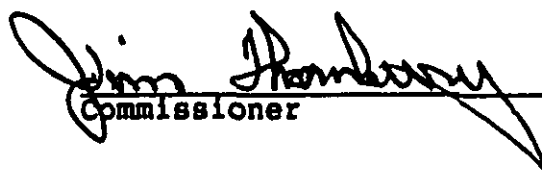
4. Within 20 days of the date of this Order, Barnesburg shall file schedules showing the amount of unauthorized rates collected for 1- and 2-inch meter sizes and a schedule showing amounts collected for service charges over the last 5 years. Both schedules shall identify each individual customer who paid the unauthorized charges, the total amount collected from each, and the billing period over which these charges were collected.

Done at Frankfort, Kentucky, this 16th day of August, 1990.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director

**APPENDIX**

**APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC  
SERVICE COMMISSION IN CASE NO. 90-221 DATED 8/16/90**

**BARNESBURG WATER ASSOCIATION, INC.  
SOMERSET, KENTUCKY**

**REPORT OF AUDIT  
YEAR ENDED DECEMBER 31, 1988**

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COMMONWEALTH OF KENTUCKY  
**PUBLIC SERVICE COMMISSION**  
730 SCHENKEL LANE  
POST OFFICE BOX 615  
FRANKFORT, KY 40602  
(502) 564-3940

**INDEPENDENT AUDITOR'S REPORT**

To The Kentucky Public Service Commission

We have audited the accompanying balance sheet of Barnesburg Water Association, Inc. as of December 31, 1988, and the related statements of operations and unappropriated retained earnings for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Association, in compliance with the reporting requirements of the Kentucky Public Service Commission, is not required to prepare a statement of cash flows. The statement, therefore, has been omitted. Presentation of such statement summarizing the Association's operating, investing and financing activities is required by generally accepted accounting principles.

In our opinion, except that the omission of a statement of cash flows results in an incomplete presentation as explained in the preceding paragraph, the financial statements referred to in the first paragraph present fairly the financial position of Barnesburg Water Association, Inc., as of December 31, 1988, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

**Rates and Tariffs Division**

March 21, 1990

**BARNESBURG WATER ASSOCIATION, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 1988**

**\*\*ASSETS AND OTHER DEBITS\*\***

|  |   |                          |
|--|---|--------------------------|
| <b>UTILITY PLANT (Note 1):</b>             |   |                          |
| 101  | Utility Plant in Service  | \$ 1,172,518.90          |
| 110  | Accumulated Provision for Depreciation<br>and Amortization of Utility Plant | (244,163.22)             |
|  |   | -----                    |
|  | Net Utility Plant   | 928,355.68               |
|  |   | -----                    |
| <br><b>OTHER PROPERTY AND INVESTMENTS:</b> |   |                          |
| 124  | Other Investments   | 10,842.87                |
|  |   | -----                    |
| <br><b>CURRENT AND ACCRUED ASSETS:</b>     |   |                          |
| 131  | Cash  |                          |
|  | Operating Account   | 13,445.42                |
|  | Savings Account   | 18,708.45                |
|  | Money Market Account  | 9,276.71                 |
| 142  | Customer Accounts Receivable (Note 1)                                       | 10,131.71                |
| 143  | Other Accounts Receivable   | 2,500.00                 |
| 166  | Prepayments   | 646.85                   |
|  |   | -----                    |
|  | Total Current and Accrued Assets  | 54,709.14                |
|  |   | -----                    |
| <br><b>TOTAL ASSETS AND OTHER DEBITS</b>   |   | <br><b>\$ 993,907.69</b> |
|  |   | <b>*****</b>             |

**See notes to financial statements.**

BARNESBURG WATER ASSOCIATION, INC.  
BALANCE SHEET  
DECEMBER 31, 1988

**\*\*LIABILITIES AND OTHER CREDITS\*\***

**EQUITY:**

|     |                                  |                 |
|-----|----------------------------------|-----------------|
| 216 | Unappropriated Retained Earnings | \$ (199,260.68) |
|     |                                  | -----           |

**LONG-TERM DEBT:**

|     |                               |            |
|-----|-------------------------------|------------|
| 224 | Other Long-term Debt (Note 3) | 446,192.59 |
|     |                               | -----      |

**CURRENT AND ACCRUED LIABILITIES:**

|     |                                       |           |
|-----|---------------------------------------|-----------|
| 232 | Accounts Payable                      | 7,428.07  |
| 235 | Customer Deposits                     | 1,610.00  |
| 237 | Interest Accrued                      | 11,676.02 |
| 238 | Other Current and Accrued Liabilities |           |
|     | Sales Tax                             | 42.42     |
|     | School Tax                            | 261.96    |
|     | Current Portion of Long-Term Debt     | 5,593.33  |
|     |                                       | -----     |
|     | Total Current and Accrued Liabilities | 26,611.80 |
|     |                                       | -----     |

**DEFERRED CREDITS:**

|     |                           |          |
|-----|---------------------------|----------|
| 252 | Advances for Construction | 4,100.00 |
|     |                           | -----    |

**CONTRIBUTIONS IN AID OF CONSTRUCTION:**

|     |                                      |            |
|-----|--------------------------------------|------------|
| 271 | Contributions in Aid of Construction | 716,263.98 |
|     |                                      | -----      |

|  |                                     |               |
|--|-------------------------------------|---------------|
|  | TOTAL LIABILITIES AND OTHER CREDITS | \$ 993,907.69 |
|  |                                     | *****         |

See notes to financial statements.



BARNESBURG WATER ASSOCIATION, INC.  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 1988

OPERATING REVENUES:

|     |  |               |
|-----|--|---------------|
| 461 | Metered Sales to General Customers     |               |
|     | Metered Sales to Residential Customers | \$ 102,980.12 |
|     | Metered Sales to Commercial Customers  | 3,472.79      |
|     |  | -----         |
|     | Total Water Service Revenues           | 106,452.91    |
|     |  | -----         |

OTHER WATER SERVICE REVENUES:

|     |                                |        |
|-----|--------------------------------|--------|
| 471 | Miscellaneous Service Revenues | 740.00 |
|     |                                | -----  |

|  |                          |               |
|--|--------------------------|---------------|
|  | TOTAL OPERATING REVENUES | \$ 107,192.91 |
|  |                          | =====         |

OPERATING EXPENSES:

OPERATION AND MAINTENANCE EXPENSE ACCOUNTS:

|     |                            |              |
|-----|----------------------------|--------------|
| 601 | Source of Supply Expenses: |              |
|     | Purchased Water (Note 1)   | \$ 47,495.00 |
|     |                            | -----        |

Pumping Expenses:

|     |                                     |          |
|-----|-------------------------------------|----------|
| 622 | Fuel or Power Purchased for Pumping | 1,187.04 |
| 623 | Operation Supplies and Expenses     | 362.04   |
|     |                                     | -----    |
|     | Total Pumping Expenses              | 1,549.08 |
|     |                                     | -----    |

Transmission and Distribution Expenses:

|     |  |          |
|-----|--|----------|
| 640 | Operation Labor                              | 156.50   |
| 651 | Maintenance of Mains                         | 3,527.28 |
| 653 | Maintenance of Meters                        | 1,120.77 |
|     |  | -----    |
|     | Total Transmission and Distribution Expenses | 4,804.55 |
|     |  | -----    |

Customer Accounts Expenses:

|     |                                  |              |
|-----|----------------------------------|--------------|
| 901 | Meter Reading Labor              | 800.00       |
| 902 | Accounting and Collecting Labor  | 7,406.15     |
| 903 | Supplies and Expenses            | 3,308.91     |
|     |                                  | -----        |
|     | Total Customer Accounts Expenses | \$ 11,515.06 |
|     |                                  | -----        |

See notes to financial statements.

BARNESBURG WATER ASSOCIATION, INC.  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 1988

|                                      |   |                |
|--------------------------------------|---|----------------|
| Administrative and General Expenses: |   |                |
| 921                                  | Office Supplies and Other Expenses        | \$ 258.34      |
| 923                                  | Outside Services Employed                 | 8,576.23       |
| 924                                  | Property Insurance                        | 484.44         |
| 928                                  | Regulatory Commission Expenses            | 555.96         |
| 930.2                                | Miscellaneous General Expenses            | 353.47         |
|                                      |   | -----          |
|                                      | Total Administrative and General Expenses | 10,228.44      |
|                                      |   | -----          |
|                                      | Total Operation and Maintenance Expenses  | 75,592.13      |
|                                      |   | -----          |
| 403                                  | Depreciation Expense                      | 30,366.76      |
| 408.1                                | Taxes Other Than Income Taxes             | 130.10         |
|                                      |   | -----          |
|                                      | Total Depreciation and Taxes              | 30,496.86      |
|                                      |   | -----          |
|                                      | TOTAL OPERATING EXPENSES                  | 106,088.99     |
|                                      |   | -----          |
|                                      | NET OPERATING INCOME                      | 1,103.92       |
|                                      |   | -----          |
| OTHER INCOME:                        |   |                |
| 419                                  | Interest and Dividend Income              | 3,344.36       |
| 421                                  | Miscellaneous Nonoperating Income         | 333.50         |
|                                      |   | -----          |
|                                      | Total Other Income                        | 3,677.86       |
|                                      |   | -----          |
| OTHER INCOME DEDUCTIONS:             |   |                |
| 426                                  | Miscellaneous Income Deductions           |                |
|                                      | Loss on Sale of Investment                | 187.50         |
|                                      | Other                                     | 80.00          |
| 427                                  | Interest on Long-Term Debt                | 25,791.39      |
| 431                                  | Other Interest Expense                    | 79.20          |
|                                      |   | -----          |
|                                      | Total Other Income Deductions             | 26,138.09      |
|                                      |   | -----          |
|                                      | NET LOSS                                  | \$ (21,356.31) |
|                                      |   | =====          |
| See notes to financial statements.   |   |                |

BARNESBURG WATER ASSOCIATION, INC.  
STATEMENT OF UNAPPROPRIATED RETAINED EARNINGS  
FOR THE YEAR ENDED DECEMBER 31, 1988

216    **\*\*UNAPPROPRIATED RETAINED EARNINGS\*\***  
Unappropriated Retained Earnings at beginning  
of year:

|  |                          |
|--|--------------------------|
| As previously reported   | \$ (152,428.48)          |
| Correction of errors (Note 2)  | (25,475.89)<br>-----     |
| Adjusted Balance of Unappropriated Retained<br>Earnings at beginning of year | (177,904.37)             |
| Balance transferred from operations  | (21,356.31)<br>-----     |
| Unappropriated Retained Earnings at end of year                              | \$ (199,260.68)<br>===== |

See notes to financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1: Significant Accounting Policies**

**Regulation Requirements.** The Association is subject to the regulatory authority of the Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040. The financial statements at December 31, 1988, are reported in accordance with the Uniform System of Accounts for Class C Water Utilities, Financial Accounting Standards Board Statement No. 71, "Accounting for Regulated Industries," and other PSC prescribed policies and regulations.

**Utility Plant.** Utility plant is stated at original cost. The cost of repairs and maintenance is charged to the proper expense account as incurred. Property replacements are capitalized and retirements are charged to the proper plant account and depreciation provision.

**Depreciation.** Depreciation is applied on the straight-line method over the estimated useful life of the asset and is recognized in accordance with Statement of Financial Accounting Standards No. 93, "Recognition of Depreciation by Not for Profit Organizations."

**Customer Accounts Receivable.** The Association charges any uncollectible accounts directly to current operations. All accounts at December 31 are thought to be collectible.

**Purchased Water Costs.** Water purchases are charged to expense as delivered to the distribution system. The Association is economically dependent on City of Somerset Utilities as the sole supplier of water.

**Income Tax Status.** The Association was formed as a nonprofit organization. The Association is exempt from Federal and State income taxes. Accordingly, the financial statements include no provision for income taxes.

### **NOTE 2: Correction of Errors**

Prior period adjustments include errors resulting from the failure to expense items in the period in which they were incurred.

Corrections were made to set up beginning balances in several accounts and to adjust the beginning balances to actual per audit in other accounts.

Utility plant in service was adjusted to record 1985-1987 increases per audit. Also, depreciation expense and accumulated depreciation were adjusted to actual per audit.

An adjustment was made to accrue interest on customer deposits. Also, a correction was made to record the interest income earned on a savings account since its inception to December 31, 1987; the account was not recorded on the books during that time.

Prior period adjustments consist of the following:

|                         |                  |
|-------------------------|------------------|
| Adjust Opening Balances | <757.34>         |
| 1987 Expenses           | 5,278.27         |
| Depreciation Correction | 21,517.20        |
| Interest Accrued        | 158.20           |
| Interest Income         | <720.44>         |
|                         | <u>25,475.89</u> |

### NOTE 3: Long-Term Debt

Long-term debt consists of three loans payable to General Electric Capital Corporation.

| <u>Maturity Date</u> | <u>Interest Rate</u>    | <u>Annual Payment Including Interest</u> | <u>Unpaid Principal</u> |
|----------------------|-------------------------|--|-------------------------|
| 8/08/12              | 5%                      | \$ 6,343.00                              | \$ 84,066.06            |
| 6/21/23              | 7.375%                  | 10,226.00                                | 127,188.95              |
| 6/21/23              | 5%                      | 14,693.00                                | <u>240,530.91</u>       |
|                      | Total                   |  | \$451,785.92            |
|                      | Current Portion of Debt |  | <5,593.33>              |
|                      |                         |  | <u>\$446,192.59</u>     |

The approximate aggregate amount of long-term debt maturing in the next five years is as follows:

|      |            |
|------|------------|
| 1989 | \$5,593.33 |
| 1990 | 5,951.11   |
| 1991 | 6,270.20   |
| 1992 | 6,606.82   |
| 1993 | 6,961.98   |

### NOTE 4: Related Party Transactions

L. D. Ball, President

|  |            |
|--|------------|
| Contractual Management<br>and Field Services | \$6,559.00 |
|--|------------|

**NOTE 5: Commitments**

In an Order issued on February 22, 1988 in Case No. 9967, the Public Service Commission directed Barnesburg Water Association and three other water associations to merge into a single water association. As of the date of this report, Barnesburg has not complied with this Order.



COMMONWEALTH OF KENTUCKY  
**PUBLIC SERVICE COMMISSION**  
710 SCHENKEL LANE  
POST OFFICE BOX 615  
FRANKFORT, KY 40602  
(502) 564-1940

March 21, 1990

Mr. L. D. Ball, President  
Barnesburg Water Association, Inc.  
P. O. Box 458  
Somerset, Kentucky 42501

Dear Mr. Ball:

We have examined the financial statements of Barnesburg Water Association, Inc. for the year ended December 31, 1988 and have issued our report to the Commission thereon dated March 21, 1990. As part of our examination, we made a study and evaluation of the utility's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the utility's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of Barnesburg Water Association, Inc. is responsible for establishing and maintaining a system of internal accounting control. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose

all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Barnesburg Water Association, Inc. taken as whole.

We have chosen not to rely on accounting controls because there is inadequate segregation of duties in the authorization, execution and recording of transactions and the custody of related assets. Further, there is inadequate documentation of the performance of control procedures to permit compliance testing.

The following comments supplement the information reflected in the financial statements and notes to the financial statements.

#### Accounting and Recordkeeping Procedures

The Association's accounting records and procedures are subject to the requirements established by the Uniform System of Accounts (USoA) for Class C Utilities, as well as those prescribed by the Kentucky Public Service Commission. The review, however, disclosed several material deviations from the USoA and prescribed practices and procedures. We have noted the following exceptions.

1. Interest Accrual. Generally accepted accounting principles require that all existing liabilities be recorded in the proper period. Interest on customer deposits should be accrued on those deposits not refunded. The interest shall be applied at a rate of 6 percent annually pursuant to KRS 278.460. Adjustments have been made to comply and are directed in accordance with this finding.

It shall be noted that prior to the issuance of this report, the Commission, under Case No. 89-057, ordered the calculation of customer deposit interest using a method that is no less than "a middle course between simple and compound interest." This Order was issued on October 31, 1989.

2. Operation and Maintenance Expense Accounts. Care should be exercised by the Association in classifying items of expense for the purpose of more clearly indicating the application of the charge. The proper classification may be determined by referencing the text for the expense accounts in the USoA. A schedule of reclassification entries is appended.

3. Accounts Payable. The Association is required to keep accounts on the accrual basis. This requires that all items be recorded in the proper period. An accounts payable account was not used at the year end and therefore, several instances were noted where the Association did not expense items applicable to the correct period. Care should be exercised to expense items in the period in which they are incurred. Adjustments have been made and are directed in accordance with this finding.



Tariff and Rates Charged

The Association has a tariff currently on file with the Kentucky Public Service Commission. The rate charges for water and services are approved by the Commission with the following exceptions.

1. Rates. During 1988, the Association charged unauthorized rates as follows:

| <u>Meter Size</u> | <u>Number of Customers</u> | <u>Rate Charged</u> | <u>Gallons</u>                     |
|-------------------|----------------------------|---------------------|------------------------------------|
| 1"                | 2                          | \$18.00<br>2.43     | 5,000<br>per thousand over 5,000   |
| 2"                | 1                          | \$48.00<br>2.43     | 15,000<br>per thousand over 15,000 |

The Association has only one rate schedule in its tariff for all meter sizes. It is as follows:

|                    |                       |
|--------------------|-----------------------|
| First 1500 gallons | \$7.52                |
| Next 1500 gallons  | 2.93 per 1000 gallons |
| Next 2000 gallons  | 2.69 per 1000 gallons |
| Over 5000 gallons  | 2.43 per 1000 gallons |

We recommend the utility collect only those rates approved in its tariff.

This matter is being referred to the Commission for further investigation.

2. Service Charge. During 1988, the billing card indicated that failure to provide on time readings for three months in a row would result in a service charge. The collection of this charge is not provided for in the Association's tariff. The Association's billing clerk said the charge is rare and could not remember if any such charge was collected in 1988. Although no record of collection of this charge was found, we recommend the utility collect only those charges approved in its tariff.

This matter is being referred to the Commission for further investigation.

The foregoing is without prejudice to the right to require hereafter such adjustments as may be considered proper from additional information which may come to the attention of the Commission.

A written response to all audit findings and recommendations contained herein should be delivered to the Public Service Commission within 20 days from the date of the exit conference.

Mr. Ball  
March 21, 1990  
Page 4 of 4

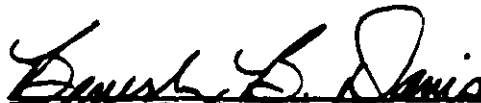
In addition, a statement of the recommendations implemented or the reason for failure to implement any recommendation or to make any adjustment directed must be given.

Our comments, as presented herein, deal exclusively with administrative, accounting and recordkeeping procedures and should not be regarded as reflecting upon the integrity or capability of anyone in your organization. We would like to thank you, Mary Riley and Jenny New for the cooperation shown us during the course of our examination.

This report is intended solely for the use of management and the Kentucky Public Service Commission and should not be used for any other purpose.



Mary Anne Gill, CPA  
Manager  
Financial Audit Branch



Beverly B. Davis, CPA  
Audit Team Leader



M. Christina Whelan  
Financial Auditor

BARNESBURG WATER ASSOCIATION, INC.  
AUDIT ADJUSTMENTS  
December 31, 1988

| <u>Account<br/>Number</u> | <u>Account</u>   | <u>Debit</u> | <u>Credit</u> |
|---------------------------|--|--------------|---------------|
|                           | (1)  |              |               |
| 224                       | Other Long-Term Debt   | \$2,212.22   |               |
| 237                       | Interest Accrued   | 2,575.92     |               |
| 427                       | Interest on Long-Term Debt   | 25,791.39    |               |
| 427                       | Interest on Long-Term Debt   |              | \$30,519.24   |
| 439                       | Adjustments to Retained Earnings   |              | 60.29         |
|                           | to adjust interest expense and accrued<br>to actual per audit                      |              |               |
|                           | (2)  |              |               |
| 439                       | Adjustments to Retained Earnings   | 21,517.20    |               |
| 403                       | Depreciation Expense   | 1,430.76     |               |
| 110                       | Accumulated Depreciation   |              | 22,947.96     |
|                           | to adjust depreciation expense and<br>accumulated depreciation to actual per audit |              |               |
|                           | (3)  |              |               |
| 132                       | Temporary Cash Investments   | 8,657.00     |               |
| 124                       | Other Investments  | 13,034.37    |               |
| 439                       | Adjustments to Retained Earnings   |              | 78.42         |
| 125                       | Special Funds  |              | 21,612.95     |
|                           | to adjust beginning balances<br>to actual per audit                                |              |               |
|                           | (4)  |              |               |
| 439                       | Adjustments to Retained Earnings   | 11,766.77    |               |
| 237                       | Interest Accrued   |              | 11,766.77     |
|                           | to adjust beginning balance to<br>actual per audit                                 |              |               |

| <u>Account<br/>Number</u> | <u>Account</u>  | <u>Debit</u> | <u>Credit</u> |
|---------------------------|---|--------------|---------------|
| (5)                       |   |              |               |
| 439                       | Adjustments to Retained Earnings  | \$400.00     |               |
| 601                       | Purchased Water   | 3,248.50     |               |
| 923                       | Outside Services Employed   | 50.00        |               |
| 622                       | Fuel or Power Purchased For Pumping                                       | 115.54       |               |
| 928                       | Regulatory Commission Expense   | 55.70        |               |
| 902                       | Accounting and Collecting Labor   | 608.04       |               |
| 101                       | Utility Plant in Service  | 1,561.80     |               |
| 640                       | Transmission and Distribution-<br>Operating Labor                         | 13.00        |               |
| 623                       | Pumping-Operation Supplies<br>and Expenses                                | 130.00       |               |
| 651                       | Maintenance of Mains  | 558.29       |               |
| 921                       | Office Supplies and Other Expenses  | 9.95         |               |
| 653                       | Maintenance of Meters   | 645.00       |               |
| 232                       | Accounts Payable  |              | \$7,395.82    |
|                           | to set up accounts payable at 12/31/88                                    |              | .             |
|                           |   |              | .             |
| (6)                       |   |              |               |
| 235                       | Customer Deposits   | 5,152.80     |               |
| 439                       | Adjustments to Retained Earnings  |              | 5,152.80      |
|                           | to adjust beginning balance   |              |               |
|                           | to actual per audit   |              |               |
| (7)                       |   |              |               |
| 131                       | Cash  | 5,093.74     |               |
| 252                       | Customer Advances For Construction  |              | 4,100.00      |
| 419                       | Interest and Dividend Income  |              | 273.30        |
| 439                       | Adjustments to Retained Earnings  |              | 720.44        |
|                           | to record bank account and interest<br>income for 1988 and<br>prior years |              |               |
| (8)                       |   |              |               |
| 461.1                     | Metered Sales to Residential Customers                                    | 1,527.92     |               |
| 461.2                     | Metered Sales to Commercial Customers                                     | 550.18       |               |
| 903                       | Customer Accounts-Supplies and<br>Expenses                                | 2,948.20     |               |
| 142                       | Customer Accounts Receivable  |              | 5,026.30      |
|                           | to adjust to actual per audit   |              |               |

| <u>Account<br/>Number</u> | <u>Account</u>  | <u>Debit</u> | <u>Credit</u> |
|---------------------------|---|--------------|---------------|
|                           | (9)   |              |               |
| 439                       | Adjustments to Retained Earnings                                  | \$4,579.27   |               |
| 651                       | Maintenance of Mains  |              | \$17.40       |
| 601                       | Purchased Water   |              | 3,703.50      |
| 622                       | Fuel or Power Purchased for Pumping                               |              | 41.33         |
| 632                       | Water Treatment-Operation Supplies<br>and Expenses                |              | 11.00         |
| 902                       | Accounting and Collecting Labor                                   |              | 597.04        |
| 641                       | Transmission and Distribution-Operation<br>Supplies and Expenses  |              | 209.00        |
|                           | to adjust for 1987 expenses recorded<br>in 1988                   |              |               |
|                           | (10)  |              |               |
| 142                       | Customer Accounts Receivable                                      | 3,660.77     |               |
| 439                       | Adjustments to Retained Earnings                                  |              | 3,660.77      |
|                           | to adjust beginning balance to<br>actual per audit                |              |               |
|                           | (11)  |              |               |
| 101                       | Utility Plant in Service  | 3,517.64     |               |
| 439                       | Adjustments to Retained Earnings                                  |              | 3,517.64      |
|                           | to adjust plant for increases in the<br>years 1985-1987 per audit |              |               |
|                           | (12)  |              |               |
| 143                       | Other Accounts Receivable   | 2,500.00     |               |
| 426                       | Miscellaneous Income Deductions                                   | 187.50       |               |
| 124                       | Other Investments   |              | 2,687.50      |
|                           | to record sale of stock<br>and loss on transaction                |              |               |
|                           | (13)  |              |               |
| 101                       | Utility Plant in Service  | 3,686.50     |               |
| 651                       | Maintenance of Mains  |              | 3,686.50      |
|                           | to capitalize amounts on<br>invoices that were expensed           |              |               |

| <u>Account<br/>Number</u> | <u>Account</u>  | <u>Debit</u> | <u>Credit</u> |
|---------------------------|---|--------------|---------------|
|                           | (14)  |              |               |
| 132                       | Temporary Cash Investments                                    | \$619.71     |               |
| 419                       | Interest and Dividend Income                                  |              | \$619.71      |
|                           | to record increase in money<br>market account                 |              |               |
|                           | (15)  |              |               |
| 166                       | Prepayments   | 604.45       |               |
| 924                       | Property Insurance  |              | 604.45        |
|                           | to record prepaid insurance at<br>actual per audit            |              |               |
|                           | (16)  |              |               |
| 235                       | Customer Deposits   | 125.00       | .             |
| 903                       | Customer Accounts-Supplies and<br>Expenses                    | 323.18       | .             |
| 142                       | Customer Accounts Receivable                                  |              | 415.93        |
| 232                       | Accounts Payable  |              | 32.25         |
|                           | to record customer deposits applied and<br>refunded per audit |              |               |
|                           | (17)  |              |               |
| 101                       | Utility Plant in Service                                      | 20.00        |               |
| 439                       | Adjustments to Retained Earnings                              | 299.00       |               |
| 651                       | Maintenance of Mains  |              | 319.00        |
|                           | to adjust for 1987 invoices<br>recorded in 1988               |              |               |
|                           | (18)  |              |               |
| 431                       | Other Interest Expense  | 79.20        |               |
| 439                       | Adjustments to Retained Earnings                              | 158.20       |               |
| 237                       | Interest Accrued  |              | 237.40        |
|                           | to record interest on customer deposits                       |              |               |

| <u>Account<br/>Number</u> | <u>Account</u>  | <u>Debit</u> | <u>Credit</u> |
|---------------------------|---|--------------|---------------|
|                           | (19)  |              |               |
| 426                       | Miscellaneous Income Deductions                           | \$80.00      |               |
| 439                       | Adjustments to Retained Earnings                          |              | \$80.00       |
|                           | to correctly record IRS<br>penalty                        |              |               |
|                           | (20)  |              |               |
| 166                       | Prepayments   | 42.40        |               |
| 439                       | Adjustments to Retained Earnings                          |              | 42.40         |
|                           | to adjust beginning balance to actual<br>per audit        |              |               |
|                           | (21)  |              |               |
| 238                       | Other Current and Accrued Liabilities                     | 35.86        |               |
| 903                       | Customer Accounts-Supplies and<br>Expenses                |              | 35.86         |
|                           | to adjust to actual per audit                             |              |               |
|                           | (22)  |              |               |
| 903                       | Customer Accounts-Supplies and<br>Expenses                | 20.00        |               |
| 235                       | Customer Deposits   |              | 20.00         |
|                           | to adjust for additions to customer<br>deposits per audit |              |               |
|                           | (23)  |              |               |
| 460.1                     | Unmetered Sales to Residential<br>Customers               | 5.00         |               |
| 903                       | Customer Accounts-Supplies and Expenses                   | 15.00        |               |
| 461.1                     | Metered Sales to Residential<br>Customers                 |              | 20.00         |
|                           | to adjust for unmetered sales                             |              |               |
|                           | (24)  |              |               |
| 238                       | Other Current and Accrued Liabilities                     | 11.79        |               |
| 439                       | Adjustments to Retained Earnings                          |              | 11.79         |
|                           | to adjust beginning balance<br>to actual per audit        |              |               |

BARNESBURG WATER ASSOCIATION, INC.  
AUDIT RECLASSIFICATIONS  
December 31, 1988

| <u>Description</u>  | <u>Amount</u> | <u>Proper Account</u>                                 | <u>Account Charged</u>  |
|---|---------------|---|---|
| Current portion of long-term debt   | \$5,593.33    | 238 - Other Current and Accrued Liabilities           | 224 - Other Long-Term Debt  |
| Sales and School taxes  | 352.03        | 238 - Other Current and Accrued Liabilities           | 236 - Taxes Accrued   |
| Deposit from KWS Somerset Water   | 318.00        | 421 - Miscellaneous Non-operating Income              | 460.1 - Unmetered Sales to Residential Customers                      |
| Miscellaneous deposit   | 15.50         | 421 - Miscellaneous Non-operating Income              | 461.1 - Metered Sales to Residential Customers                        |
| Pump switch repair, pump timer repair, turning pumps off and on, new bolts, adjusting packing pumps | 232.04        | 623 - (Pumping) Operation Supplies and Expenses       | 651 - Maintenance of Mains  |
| Bacteriological analysis  | 143.50        | 640 - (Transmission and Distribution) Operation Labor | 632 - (Water Treatment) Operation Supplies and Expense                |
| Check and repair leaks, meter wrench, turning meter on, changing meter, meter boxes, meter testing  | 460.77        | 653 - Maintenance of Meters                           | 651 - Maintenance of Mains  |
| Turning meter on  | 15.00         | 653 - Maintenance of Meters                           | 651 - Maintenance of Mains  |
| Meter reading labor   | 800.00        | 901 - Meter Reading Labor                             | 641 - (Transmission and Distribution) Operation Supplies and Expenses |
| RECC terminal repair  | 38.39         | 903 - (Customer Accounts) Supplies and Expenses       | 651 - Maintenance of Mains  |
| Stamps, stamped envelopes, office supplies, postage   | 189.37        | 921 - Office Supplies and Other Expenses              | 641 - (Transmission and Distribution) Operation Supplies and Expenses |
| Accounting Fees   | 1,695.98      | 923 - Outside Services Employed                       | 902 - Accounting and Collecting Labor                                 |



|   |        |   |   |
|---|--------|---|---|
| Co-op office work,<br>consulting fee,<br>legal fees | 271.25 | 923 - Outside Services<br>Employed      | 641 - (Transmission<br>Distribution) Operation<br>Supplies and Expenses |
| Legal fees for<br>merger                            | 500.26 | 928 - Regulatory Commission<br>Expense  | 641 - (Transmission<br>Distribution) Operation<br>Supplies and Expenses |
| Director meeting<br>expenses                        | 353.47 | 930.2 Miscellaneous<br>General Expenses | 926 - Employee Pensions<br>and Benefits                                 |